

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Huron County Road Commission	County Huron
Fiscal Year End 12/31/2005	Opinion Date 5/17/2006	Date Audit Report Submitted to State 6/29/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

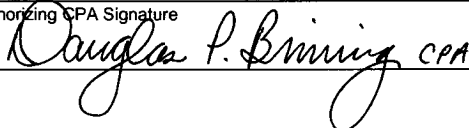
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Brining & Nartker, P.C.		Telephone Number 989-269-9909	
Street Address 64 Westland Drive		City Bad Axe	State MI
Zip 48413			
Authorizing CPA Signature 	Printed Name Douglas P. Brining	License Number 08283	

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN**

**FINANCIAL REPORT  
DECEMBER 31, 2005**

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN**

**TABLE OF CONTENTS**

	<b><u>PAGE NUMBER</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	2 – 6
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Assets	7
Statement of Activities	8
FUND FINANCIAL STATEMENTS:	
Balance Sheet – Governmental Fund	9
Statement of Revenues, Expenditures and Change in Fund Balance – Governmental Fund	10
NOTES TO THE FINANCIAL STATEMENTS	11 – 19
<b><u>SUPPLEMENTAL INFORMATION</u></b>	
Operating Fund – Budgetary Comparison Schedule	20 – 22
Pension Plan Data – Schedule of Funding Progress	23
Operating Fund – Statement of Revenues, Expenditures and Changes in Fund Balance by Fund Balance Sub Account	24

# BRINING & NARTKER, P.C.

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## INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners of  
Huron County  
Bad Axe, Michigan 48413

We have audited the basic financial statements of the Huron County Road Commission, a component unit of Huron County, Michigan, as of December 31, 2005, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Huron County Road Commission as of December 31, 2005, and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, budgetary comparison information and pension plan data on pages 2 through 6 and 20 through 23, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Huron County Road Commission. The statement on page 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Road Commission of Huron County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Brining & Nartker, P.C.*

BRINING & NARTKER, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

May 17, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**ROAD  
COMMISSIONERS:**

JOHN M. HUNT  
BAD AXE

MICHAEL A. POWER  
CASEVILLE

ALAN J. McTAGGART  
PORT HOPE

# **Board of County Road Commissioners of Huron County**

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## **Management's Discussion and Analysis**

This section of the Huron County Road Commission's (the "Road Commission") annual financial report presents our discussion and analysis of the Road Commission's financial performance during the fiscal year that ended December 31, 2005. Please read this M.D. & A. in conjunction with the Road Commission's financial statements, which follow this section.

### **Financial Highlights**

- The Road commission's total net assets increased by approximately \$700,000.
- During the year, restricted net assets decreased by approximately \$515,000.
- Total Revenue sources for the year of \$11.5 million exceeded expenditures of \$10.8 million by \$700,000.
- \$8 million was invested in capital assets during the year.

### **Overview of the Financial Statements**

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplemental information, and other supplementary information.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with more detail regarding Road Fund balances.

### **Financial Analysis of the Road Commission as a Whole**

#### *Net Assets*

The Road Commission combined net assets increased during 2005 by approximately \$700,000, ending the year at 63.6 million. Table 1 below shows the composition of the Road Commission's net assets at December 31, 2005 compared with December 31, 2004.

Table 1

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
	(in thousands)	
<b>Assets</b>		
Current and other assets	\$ 6,266	\$ 6,484
Capital assets	60,747	59,688
Total assets	<u>67,013</u>	<u>66,172</u>
<b>Liabilities</b>		
Long-term liabilities outstanding	1,551	1,707
Other liabilities	1,856	1,556
Total liabilities	<u>3,407</u>	<u>3,263</u>
<b>Net Assets</b>		
Invested in capital assets – Net of related debt	59,980	58,769
Restricted	3,626	4,140
<b>Total net assets</b>	<u>\$ 63,606</u>	<u>\$ 62,909</u>

**Changes in Net Assets**

The Road Commission's change in net assets was a combination of various revenue sources and expense categories as shown in Table 2.

The Michigan Transportation Fund (MTF) revenue is the result of a statutory formula that is structured to share various fuel taxes and license fees collected by the State of Michigan with cities, road commissions and the Michigan Department of Transportation. This revenue item is one of the primary sources of revenue for the Road Commission. For 2005, MTF revenue returned to a somewhat normal level as compared to the legislated, inflated increases of 2003 and early 2004. Federal and State aid revenue was down further due to the slow process of implementing the new Local Bridge Program.

Expenses increased due to several factors. Equipment fixed cost increased and equipment rental revenue decreased substantially. This was due to the sharp increase in fuel costs, substantially less township work and difficult early and late winters. Also, a new truck and related equipment delivered in late 2004 was actually paid for in 2005. That approximately \$110,000 charge is important.

Table 2

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
	(in thousands)	
<b>Revenue</b>		
Michigan Transportation Fund	\$ 4,977	\$ 5,265
State Trunkline maintenance	1,784	1,103
Federal and state aid	979	1,314
Contributions for work performed for others	2,575	3,501
Interest	49	15
Miscellaneous	-	9
Property Taxes	1,062	1,017
Gain on sale of assets	121	3
Total Revenue	<u>11,547</u>	<u>12,227</u>
<b>Expenses</b>		
Routine and preventative maintenance	\$ 4,617	\$ 4,125
Equipment	345	(196)
Administrative	438	462
Compensated absences	(45)	34
Depreciation and depletion	5,438	5,485
Interest	57	54
Total Expenses	<u>10,850</u>	<u>9,964</u>
<b>Change in net assets</b>	<u>\$ 697</u>	<u>\$ 2,263</u>

### **Road Fund Budgetary Highlights**

Along with the decrease in MTF funds, the most significant circumstance was a sharp decrease in township contributions. A reduction in revenue sharing from the State of Michigan and other non-road related issues resulted in almost \$1,000,000 less in township revenue from 2004 levels.

### **Capital Assets**

The road Commission has approximately \$60.7 million in net capital assets at the end of the year due mainly to infrastructure improvements.

These infrastructure improvements during the year involved constructing or reconstructing roads, bridges and intersections. The Road Commission also contributed \$360,000 to the work done on the local road system. During the year, 150 miles of road improvements were made. This consists of 25 miles on the primary road system and 125 miles on the local road system.



*Management's Discussion and Analysis (Continued)*

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
	(in thousands)	
Land improvements	\$ 9,624	\$ 9,153
Buildings	1,311	1,311
Road Equipment	6,652	6,465
Shop Equipment	95	95
Office Equipment	97	97
Engineering Equipment	100	99
Gravel pits	90	90
Yard and storage bins	424	424
Road	61,831	61,167
Bridges	23,216	22,467
<b>Total</b>	<b><u>\$ 103,440</u></b>	<b><u>\$ 101,368</u></b>

Infrastructure improvements during the year involved constructing or reconstructing roads, bridges or intersections. During the year approximately 10 bridges were repaired or had maintenance performed on them, four bridges were designed for the township local & primary system.

**The Year in Review and the 2005 Budget**

The snow fighting costs were again on the increase for 2005. In addition to the normal winter weather, there was actually a snowfall in excess of 10" on April 29, 2005. The snow began again in early December 2005 and did not subside.

Overall costs involved in performing regular operations have continued to increase. Specifically, the costs involved with fuel, related petroleum based products and parts have increased by drastic proportions.

Township contributions have decreased significantly from 2004 levels. This decrease in work performed has a direct effect on revenue generated from equipment rental. This aspect of the overall budget will be continued to be monitored closely.

Improving safety continues to be at the fore front. The vertical reflective sheeting (lollipop) program continues to be very popular and effective. Also, an experiment was conducted in which the edge-line marking on the Learman-Carpenter Road curve was recessed into the asphalt to test proposed increased longevity. During all recycling and asphalt overlay projects, roads are widened and radii are improved to help prevent edge cracking. Other safety projects were conducted as well. This is significant since there are additional costs, to undertake this type of aggressive safety program.

**The Year in Review and the 2005 Budget** (Continued)

Capital purchases costs for the year were increased from original budgeted amounts. The reason for the increase was that a new tandem dump truck that was actually to be delivered in very late 2004 was not delivered and paid for until 2005.

In summary for 2005, revenue sources decreased including but not limited to MTF, equipment rental, township receivables. At the same time expenses increased. Included are equipment direct, operating and indirect expenses. Additional fuel costs and higher depreciation (due to the purchase of 5 new trucks) account for a significant amount of the budget short-fall.

The 2006 budget already is showing signs of stress. Asphalt costs are 1/3 more per ton than 2005 levels. Also, the "Local Roads Now" program, make it financially advantageous to increase the miles of new asphalt this year. That means spending in excess of the budgeted amount for asphalt. To help off-set some of this additional cost, the capital purchase budget will be trimmed significantly.

Townships appear to be on track to spend much the same as 2005. However, much of that work will be new asphalt or lime stone hauled by contactors. That practice could cause cash flow issues.

The State Trunkline Maintenance dollars appear steady for 2006. It appears that MDOT will have the Road Commission complete several special projects in addition to routine maintenance.

**Contacting the Road Commission's Financial Management**

The financial report is designed to provide a general overview of the Road Commission's finances and accountability of the public trust. Questions regarding any of the information provided in this report or requests for additional information should be addressed to the Secretary-Manager, Huron County Road Commission, 417 S. Hanselman Street, Bad Axe, Michigan 48413.

## **BASIC FINANCIAL STATEMENTS**

**HURON COUNTY ROAD COMMISSION**  
**A COMPONENT UNIT OF HURON COUNTY, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2005**

**ASSETS:**

**Current assets:**

Cash	\$ 1,162,507
Accounts receivable:	
Taxes	1,434,435
Sundry accounts	59,071
Interest	3,902
State trunkline maintenance	219,332
Michigan transportation fund	778,036
Due on county road agreements	1,301,658
Due from other component units	570,337
Inventories:	
Road materials	376,691
Equipment parts and materials	319,459
Prepaid expenses	37,671
Deferred expenses	2,102

**Noncurrent assets:**

Capital assets (net of accumulated depreciation)	60,747,491
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**TOTAL ASSETS**

67,012,692

**LIABILITIES:**

**Current liabilities:**

Accounts payable	115,449
Due to State of Michigan	7,380
Accrued wages	98,658
Performance bonds payable	80,886
Interest payable	31,860
Installment purchase agreements payable	92,417
Deferred revenue	1,429,435

**Noncurrent liabilities:**

Advances from state	283,195
Installment purchase agreements payable	767,611
Vested employee benefits payable	499,866

**TOTAL LIABILITIES**

3,406,757

**NET ASSETS:**

Investment in capital assets net of related debt	59,979,880
Restricted for county roads	3,626,055

**TOTAL NET ASSETS**

\$ 63,605,935

The accompanying notes are an integral part of the financial statements.

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

PROGRAM EXPENSES:	
Primary road routine and preventative maintenance	\$ 1,299,926
Local road routine and preventative maintenance	1,579,928
State trunkline maintenance	1,736,155
Net equipment expense	345,255
Net administrative expense	437,653
Compensated absences	(45,219)
Infrastructure depreciation	5,438,350
Interest expense	57,466
TOTAL PROGRAM EXPENSES	<u>10,849,514</u>
PROGRAM REVENUE:	
Charges for services:	
Charges for services	1,783,768
Contributions from Local Units	2,574,881
Reimbursements	58
Operating grants and contributions:	
Michigan Transportation Funds	4,976,648
Investment earnings	48,919
Capital grants and contributions:	
Federal grants	680,939
State grants	298,454
TOTAL PROGRAM REVENUE	<u>10,363,667</u>
NET PROGRAM REVENUE	<u>(485,847)</u>
GENERAL REVENUE:	
Property taxes	1,062,152
Gain on equipment disposal	120,828
TOTAL GENERAL REVENUES	<u>1,182,980</u>
CHANGE IN NET ASSETS	<u>697,133</u>
NET ASSETS - BEGINNING OF YEAR	62,908,802
NET ASSETS - END OF YEAR	<u><u>\$ 63,605,935</u></u>

The accompanying notes are an integral part of the financial statements.

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2005**

**ASSETS**

Cash and investments	\$ 1,162,507
Taxes receivable	1,434,435
Accounts receivable	59,071
Interest receivable	3,902
Due from other governmental units:	
State	997,368
Local	1,301,658
Due from other funds	570,337
Inventory	696,150
Prepaid insurance	37,671
Deferred expenses	2,102
<b>TOTAL ASSETS</b>	<b><u>\$ 6,265,201</u></b>

**LIABILITIES AND FUND EQUITY**

**LIABILITIES:**

Accounts payable	\$ 115,449
Accrued wages	98,658
Due to State of Michigan	7,380
Advances - State trunkline maintenance	83,528
Advances - State trunkline equipment	199,667
Performance bonds payable	80,886
Interest payable	31,860
Installment purchase agreements payable	92,418
Deferred revenue	1,429,435
<b>TOTAL LIABILITIES</b>	<b><u>2,139,281</u></b>

**FUND EQUITY:**

Fund balance	4,125,920
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 6,265,201</u></b>

**HURON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

Total governmental fund balance	\$ 4,125,920
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	60,747,491
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Long-term liabilities are not due in the current period and therefore are not reported as a liability in the Governmental Funds Balance Sheet.	(1,267,476)
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Net assets of governmental activities	<u><u>\$ 63,605,935</u></u>
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The accompanying notes are an integral part of the financial statements.

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCE - GOVERNMENTAL FUND  
HURON COUNTY ROAD COMMISSION**

REVENUES:	
Property taxes	\$ 1,062,152
Federal aid	680,939
State aid	5,275,102
Contributions from local units	2,574,881
Charges for services	1,783,769
Interest	48,919
Other	120,885
TOTAL REVENUES	<u>11,546,647</u>
EXPENDITURES:	
Public works	11,712,066
Capital outlay	184,360
Debt service:	
Principal	357,060
Interest and fees	57,466
TOTAL EXPENDITURES	<u>12,310,952</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(764,305)</u>
OTHER FINANCING SOURCES:	
Proceeds from lease purchase agreements	205,345
NET CHANGE IN FUND BALANCE	<u>(558,960)</u>
FUND BALANCE - JANUARY 1	4,684,880
FUND BALANCE - DECEMBER 31	<u><u>\$ 4,125,920</u></u>

**HURON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balance - total governmental funds	\$ (558,960)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay incurred in the current year	7,217,607
Depreciation	(6,158,449)
Repayment of installment purchase agreement principal is an expenditure in the governmental funds, but reduces the long-term liabilities in the statement of net assets.	357,060
Loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing notes increases long-term liabilities and does not affect the statement of activities.	(205,345)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	
Decrease in compensated absences	45,220
Change in net assets of governmental activities.	<u><u>\$ 697,133</u></u>

The accompanying notes are an integral part of the financial statements.

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Huron County Road Commission conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Huron County Road Commission.

**The Reporting Entity**

The Huron County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an appointed three member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the County, as approved by the County electors, and would be included as a part of the County total tax levy as well as reported in the County Road Fund. The Road Commission provides services to twenty-eight townships within Huron County and maintains over 1,750 miles of state, local and primary roads.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by Statement No. 39, the Road Commission's Operating Fund is considered to be a component unit of Huron County for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the financial reporting entity's statements are discussed in the following paragraphs.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

The reasons cited for including the Huron County Road Commission as a component unit of Huron County (the primary government) include the appointment of the Road Commission's three member governing board, the ability to impose its will on the Road Commission and the potential for a financial benefit or burden on the County.

**Related Organizations**

The Board of County Road Commissioners is also the appointed governing body of the Drains, Parks and Airport Funds of Huron County. These funds are also component units of Huron County, but are not included in these financial statements. The financial statements for the Drains, Parks and Airport Funds are issued in separate reports, which are available at the Huron County Road Commission office located at 417 S. Hanselman St., Bad Axe, Michigan.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

(Continued)



**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Accounting Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to inventories and unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property Taxes

During 2004, the voters of Huron County approved the renewal of a county-wide millage of one mill for five years for primary road resurfacing and reconstruction. Collection of this millage began December 1, 2004 and will continue until February, 2009. Management has established a policy of revenue recognition for property taxes as follows. The property tax is levied on each December 1st on the taxable valuation of property located in Huron County as of the preceding December 31st. These taxes have a final collection date of February 28, before they are added to the County's delinquent tax rolls. The delinquent real property taxes are purchased by the County's Revolving Tax Fund. These taxes are recorded as revenue for the year when current collections are completed, which is the fiscal year following the levy date of December 1.

Inventory

Inventory is stated at cost using the first-in, first-out method. Inventory items are charged to expenditures for road construction and equipment maintenance, repairs and operations as used.

Depreciation

Depreciation for road equipment and vehicles is computed using the sum-of-the-years digits method using the depreciation table in "Schedule C - Equipment Rental Rates" issued by the Michigan Department of Transportation. For all other capital assets, depreciation is computed on the straight-line method. Estimated useful lives are as follows:

Road equipment	5 - 8 years
Office and engineering equipment	8 years
Shop equipment	10 years
Yard and storage equipment	10 - 20 years
Buildings	25 - 50 years
Roads	5 - 30 years
Bridges	12 - 50 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

**NOTE 2 - BUDGET INFORMATION**

Annual budgets, and all amendments thereto, for the Governmental Funds are adopted by the Board to the line item level on a basis consistent with U.S. generally accepted accounting principles. All annual appropriations lapse at year end. The Road Commission does not utilize encumbrance accounting.

(Continued)

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)**

**NOTE 2 - BUDGET INFORMATION** (Continued)

Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2005, the Road Commission incurred expenditures in certain budgetary line items which were in excess of the amounts appropriated as follows:

<u>FUND</u>	<u>AMENDED BUDGET</u>	<u>AMOUNT OF EXPENDITURES</u>	<u>VARIANCE FROM BUDGET</u>
Operating Fund:			
Primary roads routine maintenance	\$ 1,250,000	\$ 1,283,638	\$ 33,638
Local roads routine maintenance	\$ 1,400,000	\$ 1,538,738	\$ 138,738
Primary structures routine maintenance	\$ 1,000	\$ 16,288	\$ 15,288
Local structures routine maintenance	\$ 1,000	\$ 41,190	\$ 40,190
State trunkline maintenance	\$ 1,050,000	\$ 1,073,494	\$ 23,494
State trunkline non-maintenance	\$ 550,000	\$ 662,661	\$ 112,661
Equipment expense - direct	\$ 1,400,000	\$ 1,502,154	\$ 102,154
Equipment expense - indirect	\$ 650,000	\$ 663,661	\$ 13,661
Equipment expense - operating	\$ 450,000	\$ 486,207	\$ 36,207
Administrative expense	\$ 720,000	\$ 768,296	\$ 48,296
Capital outlay	\$ 903,000	\$ 904,680	\$ 1,680

**NOTE 3 – CASH AND INVESTMENTS**

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Huron County Treasurer's Office, and in order to make disbursements, the Huron County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made to the County Treasurer.

Deposits are carried at cost. Deposits of the Road Commission are at various banks in the name of the Huron County Treasurer. Michigan Compiled Laws, Section 129.91, authorize the County to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations with an office located in Michigan; bonds, securities and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; and investment pools organized under the surplus funds investment pool act; and obligations of the State of Michigan or its political subdivisions which are rated as investment grade.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Road Commission's deposits are in accordance with statutory authority. The Governmental Accounting Standards Board (GASB) Statement No. 3 as amended by Statement No. 40, risk disclosures for the Road Commission's cash deposits are as follows:

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$1,189,027 of its bank balance (checking accounts, savings accounts or certificates of deposit) of \$1,389,027 exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,189,027

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)**

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the current year was as follows:

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets, not being depreciated -				
Land	\$ 88,288	\$ -	\$ -	\$ 88,288
Land improvements	9,064,220	471,513	-	9,535,733
Total capital assets, not being depreciated	9,152,508	471,513	-	9,624,021
Capital assets, being depreciated -				
Buildings and improvements	1,310,775	-	-	1,310,775
Road equipment	6,465,336	898,683	712,300	6,651,719
Shop equipment	94,666	-	-	94,666
Office equipment	96,997	5,347	5,361	96,983
Engineering equipment	99,204	650	-	99,854
Yard and storage	424,423	-	-	424,423
Infrastructure -				
Roads	61,166,615	5,092,984	4,428,320	61,831,279
Bridges	22,467,006	748,652	-	23,215,658
Depletable assets -				
Gravel pits	90,453	-	-	90,453
	92,215,475	6,746,316	5,145,981	93,815,810
Less - accumulated depreciation for -				
Buildings and improvements	896,252	33,514	-	929,766
Road equipment	5,210,201	643,761	712,078	5,141,884
Shop equipment	55,420	5,983	-	61,403
Office equipment	69,607	9,761	5,361	74,007
Engineering equipment	72,537	7,388	-	79,925
Yard and storage	227,123	19,691	-	246,814
Infrastructure -				
Roads	29,960,793	4,951,188	4,428,320	30,483,661
Bridges	5,109,601	487,163	-	5,596,764
Depletable assets	78,116	-	-	78,116
	41,679,650	6,158,449	5,145,759	42,692,340
Total capital assets, being depreciated, net	50,535,825	587,867	222	51,123,470
Governmental activity capital assets, net	\$ 59,688,333	\$ 1,059,380	\$ 222	\$ 60,747,491

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)**

**NOTE 5 –CAPITAL LEASES**

The Road Commission has entered into lease agreements as the lessee for financing the purchase of road graders. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

	Cat Grader	Cat Grader	Total
2006	\$ 32,021	\$ 34,100	\$ 66,121
2007	136,005	37,200	173,205
2008	-	128,984	128,984
Total minimum lease payments	168,026	200,284	368,310
Less: amount representing interest	(10,318)	(15,018)	(25,336)
Present value	\$ 157,708	\$ 185,266	\$ 342,974

**NOTE 6 - DUE FROM/TO OTHER COMPONENT UNITS**

Interfund receivable and payable balances at December 31, 2005 are as follows:

	<u>DUE FROM</u>	<u>DUE TO</u>
Airport Fund	\$ 33,793	\$ -
Parks Fund	457,165	80
Drains Fund	79,379	-
	<u>\$ 570,337</u>	<u>\$ 80</u>

The funds listed above are other component units of the County of Huron. The financial statements for these entities are issued under separate cover. All amounts are expected to be repaid in less than one year.

**NOTE 7 – LONG-TERM DEBT**

The following is a summary of the outstanding debt of the Road Commission as of December 31, 2005:

	<u>INTEREST RATE</u>	<u>MATURING THROUGH</u>	<u>PRINCIPAL OUTSTANDING</u>
Drain assessment payable - Allen Drain	Various	2011	\$ 164,903
Drain assessment payable - Shebeon Drain	Various	2010	259,734
TOTAL LONG-TERM DEBT			<u>\$ 424,637</u>

(Continued)

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)**

**NOTE 7 – LONG-TERM DEBT** (Continued)

The following is a summary of changes in long-term debt of the Road Commission for the year ended December 31, 2005:

	BALANCE JANUARY 1, 2005	ADDITIONS	REDUCTIONS	BALANCE DECEMBER 31, 2005
Vested employee benefits payable	\$ 545,085	\$ -	\$ 45,219	\$ 499,866
Drain assessment payable - Allen	192,386	-	27,483	164,903
Drain assessment payable - Shebeon	324,668	-	64,934	259,734
	<u>\$ 1,062,139</u>	<u>\$ -</u>	<u>\$ 137,636</u>	<u>\$ 924,503</u>

Annual principal requirements to maturity for the above long-term debt are as follows:

YEAR ENDING DECEMBER 31,	ALLEN DRAIN ASSESSMENT		SHEBEON DRAIN ASSESSMENT	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2006	\$ 27,484	\$ 9,498	\$ 64,934	\$ 14,026
2007	27,484	7,915	64,934	10,519
2008	27,484	6,332	64,934	7,013
2009	27,484	4,749	64,932	3,506
2010	27,484	3,166	-	-
2011-2012	27,483	1,583		
	<u>\$ 164,903</u>	<u>\$ 33,243</u>	<u>\$ 259,734</u>	<u>\$ 35,064</u>

The amounts shown as future year interest requirements were determined using the interest rate in effect during 2005. These interest rates fluctuate on a yearly basis.

**Vested Employee Benefits**

Vacation is earned in varying amounts depending on the number of years of service for each employee. Vacation earned in one year is credited to employees on the anniversary of their hire date of the following year. An employee may carry over from year-to-year 120 hours of accumulated vacation.

After one year of service, sick leave is earned by each full-time employee at the rate of eight hours for every month of completed service. Unused sick leave may be accumulated to a total of 400 hours.

Vacation pay is paid at 100 percent upon retirement. Sick pay is paid at 100 percent when an employee retires, with payment not to exceed 270 hours. Fifty percent of sick leave earned and unused in excess of 270 hours is paid each January of the following year. Accumulated vacation and sick leave hours are recorded at 100 percent in the financial statements.

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)**

**NOTE 8 - DEFERRED COMPENSATION**

The Road Commission offers all employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The assets of the plan are held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Road Commission's financial statements.

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

Defined Benefit Plan - Single Employer

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is a participant in the Municipal Employees Retirement System of Michigan (MERS), which is an agent multiple-employer, state-wide, public employee pension plan that was created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. Pursuant to Act 220, on August 15, 1996, MERS became an independent public non-profit corporation which is an instrumentality of the participating municipalities and courts. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. It provides centralized administration and investment of plan assets, but each employer unit is separately experience rated. MERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, MI 48917 or by calling 1-800-767-6377.

Funding Policy

Employees are required to contribute either 3% of their annual earnings up to \$4,200 and 5% thereafter, or a flat 4.7% to the System based on the division in which the employee is a member. The Road Commission is required to contribute amounts necessary to fund the System using sound actuarial methods; the rates for 2005 were 2.60% for union employees, 18.80% for non-union employees and 23.14% for the manager.

Annual Pension Cost

For 2005, the Road Commission made actual contributions of \$192,655 which were made based on the payroll paid rather than the estimated payroll used in the actuarial valuation. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) an investment yield rate of 8%, (b) projected merit and longevity wage increases ranging from 4.5% to 12.9% per year, with a projected annual payroll increase of 4.5%, (c) a mortality table projecting the number of members who will die before retirement and the duration of benefit payments after retirement, (d) assumed retirement rates projecting when members will retire and commence receiving retirement benefits, and (e) a set of withdrawal and disability rates to estimate the number of members who will leave the work force before retirement. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis.

(Continued)

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)**

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS** (Continued)

<u>Three-Year Trend Information</u>							
YEAR		ANNUAL		PERCENTAGE		NET	
<u>ENDING</u>		<u>REQUIRED</u>		<u>OF ARC</u>		<u>PENSION</u>	
		<u>CONTRIBUTION* (ARC)</u>		<u>CONTRIBUTED</u>		<u>OBLIGATION</u>	
12/31/2003		\$ 121,044		100%		\$ -	
12/31/2004		\$ 162,144		100%		\$ -	
12/31/2005		\$ 179,532		100%		\$ -	
* Based on valuation payroll. Actual contributions will be based on actual payroll and will be different from the above amounts (usually higher).							

**Postemployment Benefits**

In addition to pension benefits, the Road Commission provides the following benefits to its retired employees:

**Life Insurance**

The Road Commission pays the premiums for a group life insurance policy in the amount of \$3,000 to \$15,000 for each retired employee. For the year ended December 31, 2005, the Road Commission paid \$1,933 in life insurance premiums on behalf of 33 retired employees. During 2002, the Road Commission elected to drop commercial life insurance policies for the retired employees with \$1,000 of coverage. Instead they have opted to self-insure the lives of these 11 retired employees. During the year ended December 31, 2005 there were no claims paid under this self-insurance policy, and 11 retirees remain under this system.

**Health Insurance**

The Road Commission also provides optional health insurance through Blue Cross & Blue Shield to its retired employees depending on their age. The Board pays the premiums for each employee that retires prior to age 65 for a maximum of three years, or until they reach age 65. Those employees who retire or continue coverage after age 65 may obtain coverage through the Road Commission, but are responsible for the full cost of all premiums. For the year ended December 31, 2005, premiums paid by the Road Commission for 8 retired employees were \$46,575, while premiums paid by retired employees totaled \$254,374.

All of the post-employment benefits provided are included in agreements between the Board and employee groups, with all required Board premiums being funded on a pay-as-you-go basis.

**NOTE 10 - CONTINGENT LIABILITIES**

Various suits involving personal injury claims have been filed or are pending against the Road Commission. The only direct financial responsibility that the Road Commission has concerning the above claims is the payment of a \$1,000 deductible, per occurrence, to the Michigan County Road Commission Self-Insurance Pool. The Road Commission is afforded coverage through the Pool with more than sufficient limits to cover any settlement or adverse judgment.

In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payment for unused sick leave and vacation under formulas and conditions specified in the contracts. The dollar amount of these vested rights which has been accrued on the financial statements amounted to \$499,866 for sick leave and vacation pay at December 31, 2005.

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)**

**NOTE 11 - RISK MANAGEMENT**

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission joined together with other Road Commissions to form the Michigan County Road Commission Self-Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program which charges an annual premium to its members for insurance coverage. The pool is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of \$10 million for each insured event. The MCRCSIP provides general liability, casualty and fleet coverage to the Road Commission, and acts as an agent for the Road Commission by purchasing commercial insurance for underground storage tank liability.

The Road Commission is also a member of the Michigan County Road Association Self-Insurance Fund, a public entity risk pool providing risk management for worker's compensation. The Road Commission also continues to carry commercial insurance for employee health coverage.

At December 31, 2005, there were no claims that exceeded insurance coverage. The Road Commission had no significant reduction in insurance coverage from the previous year.

**NOTE 12 - FEDERAL FINANCIAL ASSISTANCE**

The Michigan Department of Transportation (MDOT) acts as the agent of the Federal Highway Administration (FHWA) in the administration of Federal funds provided for the improvement of road systems of Local Public Agencies (LPA) located in Michigan. Although these funds are provided for the improvement of the LPA's road systems, MDOT, as the agent of FHWA, is responsible for controlling receipts and disbursements related to the funds. In this capacity, MDOT also awards construction contracts and, in some instances, contracts for other services or performs related work with MDOT forces. The LPA receives interim and final accountings of project receipts and disbursements from MDOT. The interim and final accountings are reflected in the LPA's accounting records. Federal compliance testing of these funds will be included in the audit of MDOT.

During the year ended December 31, 2005, the Huron County Road Commission, as an LPA, received a benefit of \$680,939 of federal funds through MDOT for the improvement of road systems and bridges.



## **SUPPLEMENTAL INFORMATION**

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
BUDGETARY COMPARISON SCHEDULE  
OPERATING FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE- FROM AMENDED POSITIVE (NEGATIVE)
REVENUES:				
Property Taxes	\$ 1,050,000	\$ 1,062,000	\$ 1,062,152	\$ 152
Federal Aid:				
Surface transportation program	350,000	270,000	269,218	(782)
Economic development "D" funds	202,000	160,000	160,639	639
Critical bridges	300,000	250,000	251,082	1,082
Total Federal Grants	852,000	680,000	680,939	939
State Aid:				
Michigan Transportation Fund:				
Engineering	10,000	10,000	10,000	-
Primary roads	2,700,000	2,570,000	2,591,661	21,661
Local roads	2,490,000	2,370,000	2,366,546	(3,454)
Snow removal	-	-	8,441	8,441
Critical bridge funds	56,000	47,000	47,078	78
Economic development fund:				
Target industries "A" funds	180,000	180,000	180,000	-
Rural primary "D" funds	96,000	70,000	71,376	1,376
Total State Grants	5,532,000	5,247,000	5,275,102	28,102
Contributions:				
Townships	3,400,000	2,600,000	2,574,881	(25,119)
Other	-	50,000	-	(50,000)
Total Contributions	3,400,000	2,650,000	2,574,881	(75,119)
Charges for Services:				
State trunkline maintenance	900,000	1,050,000	1,073,494	23,494
State trunkline non-maintenance	300,000	550,000	662,661	112,661
Salvage sales	10,000	70,000	47,614	(22,386)
Total Charges for Services	1,210,000	1,670,000	1,783,769	113,769
Interest	15,000	43,000	48,919	5,919
Other Revenues:				
Sundry refunds	-	-	57	57
Gain on sale of equipment	75,000	120,000	120,828	828
Total Other Revenues	75,000	120,000	120,885	885
TOTAL REVENUES	12,134,000	11,472,000	11,546,647	74,647

(Continued)

**HURON COUNTY ROAD COMMISSION**  
**A COMPONENT UNIT OF HURON COUNTY, MICHIGAN**  
**BUDGETARY COMPARISON SCHEDULE**  
**OPERATING FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**  
**(CONTINUED)**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE- FROM AMENDED POSITIVE (NEGATIVE)
EXPENDITURES:				
Primary Roads:				
Preservation-structural improvements	2,800,000	2,450,000	2,405,358	44,642
Routine and preventative maintenance	1,000,000	1,250,000	1,283,638	(33,638)
Total Primary Roads	3,800,000	3,700,000	3,688,996	11,004
Local Roads:				
Preservation-structural improvements	3,900,000	3,200,000	3,159,139	40,861
Routine and preventative maintenance	1,500,000	1,400,000	1,538,738	(138,738)
Total Local Roads	5,400,000	4,600,000	4,697,877	(97,877)
Primary Road Structures:				
Preservation-structural improvements	300,000	370,000	363,329	6,671
Routine and preventative maintenance	20,000	1,000	16,288	(15,288)
Total Primary Road Structures	320,000	371,000	379,617	(8,617)
Local Road Structures:				
Preservation-structural improvements	550,000	450,000	385,323	64,677
Routine and preventative maintenance	20,000	1,000	41,190	(40,190)
Total Local Road Structures	570,000	451,000	426,513	24,487
State Trunkline:				
Maintenance	900,000	1,050,000	1,073,494	(23,494)
Non-maintenance	300,000	550,000	662,661	(112,661)
Total State Trunkline	1,200,000	1,600,000	1,736,155	(136,155)
Equipment Expense - Net:				
Direct	1,400,000	1,400,000	1,502,154	(102,154)
Indirect	650,000	650,000	663,661	(13,661)
Operating	350,000	450,000	486,207	(36,207)
Less: Equipment rental	(2,300,000)	(2,200,000)	(2,306,767)	106,767
Total Equipment Expense	100,000	300,000	345,255	(45,255)
Administrative Expense - Net:				
Administrative expense	720,000	720,000	768,296	(48,296)
Less:				
Overhead - State Trunkline	(100,000)	(140,000)	(143,604)	3,604
Overhead - Parks Fund	(18,000)	(27,000)	(41,769)	14,769
Overhead - Airport Fund	(2,000)	(3,000)	(4,235)	1,235
Overhead - Drain Fund	(140,000)	(140,000)	(140,000)	-
Purchase discounts	(1,000)	(1,000)	(1,035)	35
Total Administrative Expense	459,000	409,000	437,653	(28,653)

(Continued)

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
BUDGETARY COMPARISON SCHEDULE  
OPERATING FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE- FROM AMENDED POSITIVE (NEGATIVE)
Capital Outlay - Net:				
Capital outlay	750,000	903,000	904,680	(1,680)
Less:				
Equipment retirements	-	-	(222)	222
Depreciation and depletion	(700,000)	(700,000)	(720,098)	20,098
Total Capital Outlay	<u>50,000</u>	<u>203,000</u>	<u>184,360</u>	<u>18,640</u>
Debt Service:				
Principal	360,000	360,000	357,060	2,940
Interest and fees	<u>50,000</u>	<u>60,000</u>	<u>57,466</u>	<u>2,534</u>
Total Debt Service	<u>410,000</u>	<u>420,000</u>	<u>414,526</u>	<u>5,474</u>
TOTAL EXPENDITURES	<u>12,309,000</u>	<u>12,054,000</u>	<u>12,310,952</u>	<u>(256,952)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(175,000)</u>	<u>(582,000)</u>	<u>(764,305)</u>	<u>(182,305)</u>
OTHER FINANCING SOURCES:				
Proceeds from lease purchase agreements	192,000	206,000	205,345	(655)
NET CHANGE IN FUND BALANCE	<u>17,000</u>	<u>(376,000)</u>	<u>(558,960)</u>	<u>(182,960)</u>
FUND BALANCE - JANUARY 1	4,684,880	4,684,880	4,684,880	-
FUND BALANCE - DECEMBER 31	<u>\$ 4,701,880</u>	<u>\$ 4,308,880</u>	<u>\$ 4,125,920</u>	<u>\$ (182,960)</u>

**HURON COUNTY ROAD COMMISSION  
A COMPONENT UNIT OF HURON COUNTY, MICHIGAN  
PENSION PLAN DATA  
DECEMBER 31, 2005**

**Schedule of Funding Progress**

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/95	\$ 10,940,507	\$ 10,484,980	\$ (455,527)	104%	\$ 2,063,045	0%
12/31/96	\$ 11,764,764	\$ 11,066,779	\$ (697,985)	106%	\$ 2,089,246	0%
12/31/97	\$ 12,772,918	\$ 11,992,951	\$ (779,967)	107%	\$ 1,992,931	0%
12/31/98	\$ 13,879,361	\$ 11,977,091	\$ (1,902,270)	116%	\$ 1,973,483	0%
12/31/99	\$ 15,441,579	\$ 13,160,201	\$ (2,281,378)	117%	\$ 2,273,748	0%
12/31/00	\$ 16,313,899	\$ 15,881,803	\$ (432,096)	103%	\$ 2,387,777	0%
12/31/01	\$ 16,673,821	\$ 16,982,168	\$ 308,347	98%	\$ 2,601,414	12%
12/31/02	\$ 16,288,042	\$ 17,365,850	\$ 1,077,808	94%	\$ 2,690,619	40%
12/31/03	\$ 16,525,788	\$ 17,963,908	\$ 1,438,120	92%	\$ 2,693,384	53%
12/31/04	\$ 16,822,950	\$ 19,148,577	\$ 2,325,627	88%	\$ 2,801,817	83%

**HURON COUNTY ROAD COMMISSION**  
**A COMPONENT UNIT OF HURON COUNTY, MICHIGAN**  
**OPERATING FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BY FUND BALANCE SUB ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	PRIMARY ROAD <u>FUND</u>	LOCAL ROAD <u>FUND</u>	COUNTY ROAD COMMISSION <u>FUND</u>	<u>TOTAL</u>
REVENUES:				
Property Taxes	\$ 1,062,152	\$ -	\$ -	\$ 1,062,152
Intergovernmental:				
Federal sources	429,857	251,082	-	680,939
State sources	2,670,043	2,605,059	-	5,275,102
Local sources	-	2,574,881	-	2,574,881
Charges for Services	-	-	1,783,769	1,783,769
Interest	19,078	24,460	5,381	48,919
Other	-	-	120,885	120,885
<b>TOTAL REVENUES</b>	<b>4,181,130</b>	<b>5,455,482</b>	<b>1,910,035</b>	<b>11,546,647</b>
EXPENDITURES:				
Primary Roads:				
Preservation-structural improvements	2,405,358	-	-	2,405,358
Routine and preventative maintenance	1,283,638	-	-	1,283,638
Local Roads:				
Preservation-structural improvements	-	3,159,139	-	3,159,139
Routine and preventative maintenance	-	1,538,738	-	1,538,738
Primary Road Structures:				
Preservation-structural improvements	363,329	-	-	363,329
Routine and preventative maintenance	16,288	-	-	16,288
Local Road Structures:				
Preservation-structural improvements	-	385,323	-	385,323
Routine and preventative maintenance	-	41,190	-	41,190
State Trunkline maintenance	-	-	1,073,494	1,073,494
State Trunkline non-maintenance	-	-	662,661	662,661
Equipment Expense - Net	78,235	175,113	91,907	345,255
Administrative Expense - Net	193,695	243,958	-	437,653
Capital Outlay - Net	-	-	184,360	184,360
Debt Service:				
Principal	63,758	28,684	264,618	357,060
Interest	10,261	4,616	42,588	57,466
<b>TOTAL EXPENDITURES</b>	<b>4,414,563</b>	<b>5,576,761</b>	<b>2,319,628</b>	<b>12,310,952</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(233,433)</b>	<b>(121,279)</b>	<b>(409,593)</b>	<b>(764,305)</b>
OTHER FINANCING SOURCES:				
Proceeds from lease purchase agreements	-	-	205,345	205,345
<b>NET CHANGE IN FUND BALANCE</b>	<b>(233,433)</b>	<b>(121,279)</b>	<b>(204,248)</b>	<b>(558,960)</b>
<b>FUND BALANCE - JANUARY 1</b>	<b>1,834,232</b>	<b>2,325,616</b>	<b>525,032</b>	<b>4,684,880</b>
<b>INTERFUND ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE - DECEMBER 31</b>	<b>\$ 1,600,799</b>	<b>\$ 2,204,337</b>	<b>\$ 320,784</b>	<b>\$ 4,125,920</b>

# BRINING & NARTKER, P.C.

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Certified Public Accountants

May 17, 2006

Board of Commissioners  
Huron County Road Commission  
Bad Axe, Michigan 48413

The following comments relate to situations brought to our attention during the course of our recent audit of the Huron County Road Commission financial statements, for the year ended December 31, 2005, and are submitted for your evaluation and consideration. We would like to emphasize that, since our audit was conducted for the purpose of expressing an opinion on the aforementioned financial statements, these comments are not necessarily all inclusive.

## **Legal Compliance Violations**

Appendix D of the Michigan Department of Treasury's "Bulletin for Audits of County Road Commissions" contains a legal compliance checklist to be used by auditors in determining that Road Commissions comply with the various laws that apply to them. In completing this checklist, it was noted that the Huron County Road Commission violated the provisions of MCL 224.10(3) which specifically states "In cases involving the expenditure of an amount greater than \$15,000 for the purchase of machines, tools, appliances, and materials, the board of county road commissioners shall advertise for sealed proposals for the machines, tools, appliances, and materials proposed to be purchased, except under emergency conditions, in which case the limit shall not exceed \$50,000." During 2005, the Huron County Road Commission purchased a used backhoe, a used pay loader and a chipper for amounts that exceeded \$15,000 without obtaining sealed bids for the purchase of these items.

Also, a local unit and the officials of local governments have only those duties specifically granted to them by the Michigan Constitution and statutes. If the action to be taken is not specifically authorized by the Constitution, a statute, court decision or legal opinion, that action cannot be legally executed. This includes the action of expending local government funds. The Huron County Road Commission has expended funds for mileage paid to board members and employees for travel to and from their residence to Road Commission offices or facilities. Based on information contained in the Michigan Department of Treasury's publication entitled *Determining Lawful Expenditures* it does not appear that these expenditures are legal, unless the Board of County Road Commissioners is granted the same exception as County Commissioners are granted. We recommend that the Board request a legal opinion on these expenditures.

### **Drain Fund Receivable**

Page 7 and 9 of the financial statements contain a line item entitled due from other component units. This line item represents amounts that the Parks, Airport or Drain Funds owe to the Road Commission. As of December 31, 2004, \$195,194 was due from the Drain Funds. This amount included force account work done during the period of 1999 through 2004 that had not been billed. It also included construction funds left at the conclusion of prior year bridge projects that was not remitted to the Road Commission or applied to their portion of the project debt. These items were reported to you at the conclusion of the 2004 audit. A majority of the amounts owing were paid by the Drain Fund during 2005, but some of the necessary accounting entries had not been posted as of December 31, 2005 and force account work performed from July through December 31, 2005 was not billed to the Drains until March of 2006. To ensure financial statement accuracy and compliance with U.S. generally accepted accounting principles, we recommend that the amounts owing to the Road Commission should be billed at the conclusion of each quarter, and that any necessary accounting entries related to prior year balances should be made to the Road Commission's books during 2006.

### **Capitalization Policy**

The implementation of GASB Statement No. 34 requires a conversion of the fund financial statements to the government-wide financial statements. Capital assets are one of the items that are accounted for differently between these two types of statements. Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads and bridges), are generally defined as tangible in nature with an estimated useful life of two or more years and an original cost over a dollar threshold (e.g. \$1,000 or \$5,000). These asset costs are then recorded on the balance sheet and depreciated over their estimated useful life, rather than treated as a current year expenditure.

We recommend that the Board adopt a capitalization policy which defines their criteria for capital assets. This policy should include a dollar threshold and estimated useful lives for the different types of capital assets used. The estimated lives should be based on the listing included in the "Uniform Accounting Procedures for County Road Commissions" and MCGA Statement No. 11 "Accounting and Reporting Infrastructure Assets"

### **Other Policies**

As stated in the "Uniform Accounting Procedures for County Road Commission" manual, "road commissions should establish policies to aid in the administration of the organization. Policies lay out guidelines of which new employees and new commissioners can readily acquaint themselves. Policies establish standard operating procedures in many areas of the road commission business. Policies can insure uniform and consistent answers and treatment of procedures. Policies need to be adopted by the board at a board meeting. It is recommended that a formal policy book be developed and maintained by the clerk of the board. For easy reference, policies should be indexed, categorized, and numbered in some logical manner that will allow easy retrieval. An annual review of policies should be performed by the staff, and as needed, updated in the form of amendments."



We recommend that the Board review the list of policies shown in the procedures manual to ensure that all required policies that are applicable have been adopted and that any of the other applicable policies be adopted because of the reasons shown in the first paragraph. Some policies to consider include accountability for public resources, acceptable business practices, conflicts of interest, code of conduct and fraud risk.

We wish to take this opportunity to thank the officials with whom we have worked for the cooperation we received throughout our audit.

As always, our firm will be happy to assist in implementing any recommendations approved by the Board.

*Brining & Nartker, P.C.*  
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CERTIFIED PUBLIC ACCOUNTANTS